

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 RANGOON 000599

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
TREASURY FOR OASIA
USPACOM FOR FPA

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [BM](#)

SUBJECT: THE GENERALS' FAIRY TALE BUDGET

REF: 04 RANGOON 770

11. (SBU) Summary: Burma's new fiscal year budget tells a tale of reduced budget deficits due to spending cuts and strong revenue growth by Burma's state-owned firms. Unfortunately, this same tale is told every year, with the ending inevitably changed by supplementary appropriations and inaccurate revenue projections. One thing is certain, the budget speaks volumes about regime priorities: the GOB will spend about \$400 per soldier and a mere dollar and a half per citizen on health and education. Chronic budget deficits, and the government's inability or unwillingness to address structural problems, will create inflationary pressures. Limited liquidity and a stilled economy will help counteract the upward movement of prices. End summary.

Same Old Story

12. (SBU) The GOB recently released its annual budget for FY 2005-06 (April-March), including with it the official record of supplementary appropriations to the previous year's budget (always a huge sum). The budget is not publicized broadly, instead appearing quietly in the back pages of the hard-to-find and rarely read "Burma Gazette." As usual, the numbers put down on paper are unreliable, established as they are in an opaque process. As there is no parliamentary or other oversight of government spending, the budget figures are also merely guidelines, to be added to at the whim of the senior generals either through a formal mid-year supplementary appropriation (reported post facto in the following year's budget report) or off-book.

13. (SBU) In FY 2004-05, the GOB granted itself supplementary appropriations that boosted total expenditures by 24 percent from the original budget and created a budget deficit 12 percent higher than already lofty expectations. The amount added to the budget, especially in the defense category, from off-book expenditures is unknown but likely impressively large. Though we assume that there are significant government revenues that do not appear in the official ledger -- non-tax income that ends up partially or totally in regional officials' pockets -- this is offset to a degree by overstatement of ministries and state-owned enterprises (SOE) of their expected revenues in the year ahead (there are no published revisions to the receipts side of the budget). Another recurrent problem in reading the GOB's budget is the exchange rate issue. There are multiple official exchange rates for various government and SOE transactions (ranging from 6 kyat/\$ to 450 kyat/\$), and a multitude of informal exchange rates that hover around the 1000 kyat/\$ rate. The budget report gives no indication which exchange rates are used for calculations -- particularly troublesome when looking at data of heavy import or export-focused SOEs or ministries.

14. (SBU) Because of the difficulties in taking the budget at face value, we will limit our analysis to trends and changes in stated budgetary priorities rather than closely examining the actual figures. The budget deficit expectation is also an important indicator. Because monetization is the GOB's only real mechanism to finance any deficit, the deficit figure in the past has been closely linked with inflationary spikes.

Rosy Predictions Based on What?

15. (SBU) The GOB envisions a boost in receipts of 24.2 percent in 2005-06, primarily due to the cheerful prediction of a 26 percent rise in revenue from Burma's moribund SOEs. It also foresees a 2.6 percent rise in tax collection (probably due in large part to a recent revision of the exchange rate used for assessing customs duty). Burma's ability to collect taxes is among the worst in the world, with collections in 2004-05 of only 2.3 percent of GDP (using the regime's tainted GDP numbers). The budget also foresees a rise in expenditures, but only of 14 percent from last year's predicted outlay. The report notes that this figure is actually a 10 percent reduction from the revised 2004-05 spending levels. Overall, the new budget promises a 65

percent drop in the deficit (based on the last year's post-supplementary deficit spending).

And the Winners Are...

16. (SBU) It comes as no surprise that the 2005-06 budget shows the Ministry of Defense (MOD) as the big winner. After a 54 percent increase in 2004-05, the MOD's budget rose an additional 12 percent in 2005-06 -- though down 5 percent from the FY 2004-05 actual expenditure. The MOD share of overall government spending is the same as last year (9.5 percent of total spending and 24 percent of allocations for Burma's 32 ministries). Assuming a military of 400,000 people, the MOD's initial 2005-06 budget (which likely only covers some operating costs, not procurement) comes out to 377,000 kyat (about \$400 at market rates) per uniformed capita. Unlike any other public sector employer, the military provides full benefits for the armed forces, including housing, health care, subsidized food, and education. The education and health care reserved for those in the service, and their families, are far superior to any offered to the general public.

17. (SBU) As normal, initial 2004-05 budget figures show year-on-year cuts for nearly every ministry (and even larger cuts from 2004-05 revised appropriations). However, 2005-06 budgets for the Ministries of Electric Power and Transport have been boosted 52 and 31 percent respectively, though they still make up only 2 and 2.5 percent of total budgeted expenditures respectively. Due to the supplementary appropriations, we expect few of these promised cuts to remain standing by year's end.

Social Services Short-Shrifted

18. (SBU) Despite a doubling (in kyat terms) in the last two years, the GOB's spending on public health remains appallingly low. Though it does not include all official health expenditures, the 2005-06 appropriation for the Ministry of Health declined 17 percent from the final figure for 2004-05 (though it is up slightly from last year's initial budgeted amount). The budgeted amount for 2005-06 comes out to 400 kyat (about \$0.40 at the current market rate) per capita. Funding for education is better. The Ministry of Education received a surprisingly large 15 percent boost in the 2004-05 supplemental budget, though its 2005-06 outlay is down nearly 40 percent from that peak. The budgeted amount for 2005-06 comes out to 1070 kyat (about \$1.10 at the current market rate) per capita.

State-Owned Enterprises Remain Huge

19. (SBU) The dozens of state-owned industries take up a huge portion of the annual budget (on both sides of the ledger), and a large part of the budget deficit. The 2004-05 initial budget had SOE receipts equal to 63 percent of total revenues, a number predicted to rise to 64 percent in 2005-06. However, expenditures to the weak state firms are also predicted to rise 15 percent this year from initial 2004-05 budget levels (or drop 7 percent if the revised 2004-05 figures are used). The 2005-06 prediction is that SOE expenditures will remain about 59 percent of total GOB expenses (or 1.5 times the amount expended on all ministries combined). The expected SOE deficit this year is 20 percent less than last year's final deficit, though the deficit will certainly rise as inevitable supplemental appropriations are made to struggling SOEs. Even using the more conservative figures, the SOEs' losses will make up 30 percent of the predicted budget deficit for 2005-06.

110. (SBU) The GOB data do not disaggregate the numbers for SOEs. Surely a small minority, especially high-value exporters like Myanmar Timber Enterprise, are doing better than others. However, overall the deficits created year after year by these companies are the single largest problem for the GOB's fiscal account. The IMF, in its most recent Article IV report, noted the GOB's refusal to rationalize these money losing SOEs as one of Burma's most serious structural problems (along with the related problem of multiple exchange rates).

Comment: Budgetary Crisis Persists

111. (SBU) Despite optimistic predictions of progress, we don't think this year will be much different from the recent past. Nothing has been done to fix the economy's chronic problems -- weak tax collection; unreformed, inefficient, and money losing state-owned firms; unreliable statistics collection, etc. Likewise, the regime still does not really grasp the importance of budgetary discipline, with unbridled supplementary appropriations and unchecked spending for military procurement and support of the SOEs that should be privatized or shut down. The IMF predicted in March that inflation would increase to 50 percent in the "medium term" due to monetization of Burma's persistent deficit. However, we think that the ongoing economic slowdown and unrelenting

liquidity crunch will counteract to some degree these
inflationary pressures. End comment.
Martinez